

National Association of Purchasing Management

Report On Business

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Economy Maintains Strength

Price Decreases Slowing

New Orders Down

Analysis by the Business Survey Committee, chairman, Robert J. Bretz, C.P.M., director of corporate purchasing, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

October Report

The economy entered the fourth quarter maintaining September's dramatic levels, say the nation's purchasing managers in their latest *Report on Business*. The rate of improvement in production was essentially unchanged in October, holding to the same level of increases reported during two previous months. New orders were not as strong as those reported in September, and fell back to the pace of the three previous months. Inventories declined slightly in October, as manufacturers began making seasonal adjustments. Employment was somewhat improved from the previous two months, but remained at a low level. Vendor deliveries showed little change and, for the ninth consecutive month, no items were reported in short supply. For the eleventh consecutive month, more managers reported paying lower, rather than higher, prices.

The favorable turnaround in the economy noted in September was sustained in October. Perhaps the most impressive sign is that the momentum continued, in spite of the expected seasonal slowdown, said Robert J. Bretz, C.P.M., chairman of the Business Survey Committee.

The **Purchasing Managers' Composite Index** rose to 51.7% in October from 51% in September. This is the second consecutive month this key indicator was over 50%, after registering a seven-month period of being under 50%. A reading below 50% generally indicates that the economy is in a declining phase; above 50% that the economy is expanding. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

The rate of decline in employment slowed in October. The number of members reporting lower employment decreased to 25% from the 29% indicated in September. Considering seasonal adjustments, this is the best report since November 1984.

Employment %	Higher	Same	Lower	Net Differ.
October	11	64	25	-14
September	11	60	29	-18
August	9	64	27	-18

Buying Policy

A rather significant decrease in lead times for capital expenditures was reported in October. Members reporting lead times in the important six-months-and-longer category decreased to 48% from 52% in September. However, lead times for production materials lengthened, as only 17% reported buying hand-to-mouth, compared to 25% in September. Lead times for MRO supplies also lengthened in October, as only 41% indicated buying hand-to-mouth, compared to 51% in September.

Production Materials %	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
October	17	45	24	8	6
September	25	34	27	10	4
August	16	42	26	11	5

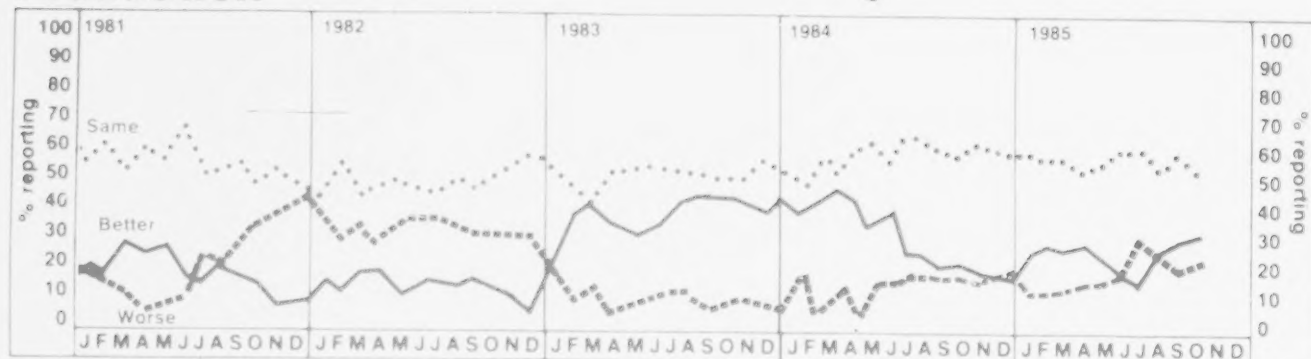
MRO Supplies %

October	41	49	5	3	2
September	51	41	4	2	2
August	46	40	8	5	1

Capital Expenditures %

October	20	5	5	22	48
September	14	4	9	21	52
August	15	5	7	20	53

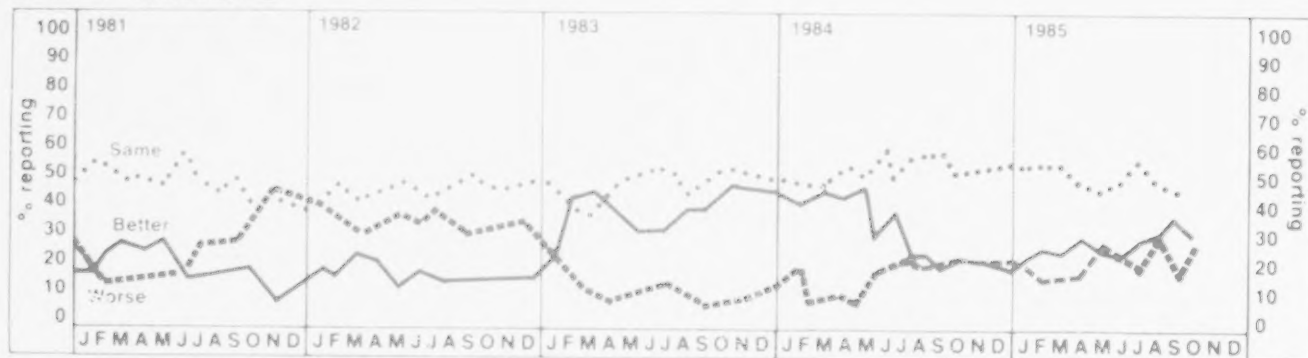
Production



There was no change in the pace of production in October. However, if you apply normal seasonal adjustments to the data above, October's rate is the highest since January 1985.

Production %	Better	Same	Worse	Net
October	26	54	20	+ 6
September	23	60	17	+ 6
August	21	56	23	- 2

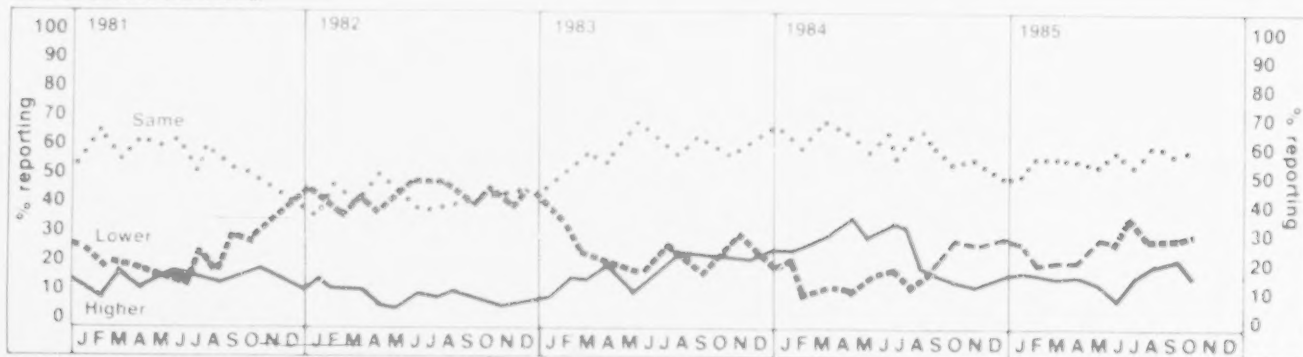
New Orders



After the significant rebound in September, new orders fell. The equal number of members reporting new orders as better and worse in October duplicated the same flat situation reported in June, July and August. This leading indicator, which now is essentially neutral, should be watched carefully for changing signs in the months ahead.

New Orders %	Better	Same	Worse	Net
October	27	46	27	0
September	34	46	20	+ 14
August	26	48	26	0

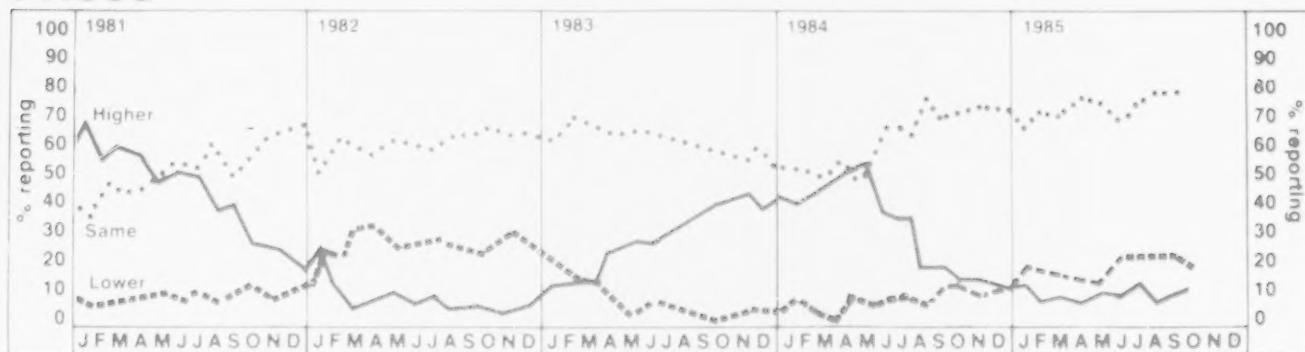
Inventories



The rate of inventory decline increased again in October. This is a change from the three previous months, in which a slight decrease in the rate of decline was reported. If this rate continues, as is normal for the end of the year, it will have a negative effect on the near-term economy.

Inventories %	Higher	Same	Lower	Net
October	14	59	27	- 13
September	17	57	26	- 9
August	14	60	26	- 12

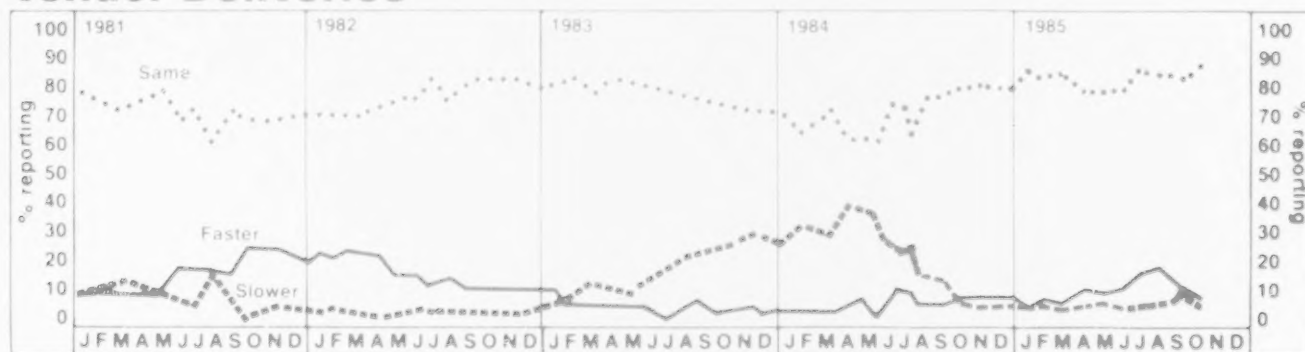
Prices



For the eleventh consecutive month, more purchasing managers reported paying lower, rather than higher, prices. For the second consecutive month, the rate of change for price decreases appears to be slowing. Some members noted that the effects of the weakening U.S. dollar is beginning to influence import prices.

Prices %	Higher	Same	Lower	Net
October	8	76	16	- 8
September	7	74	19	-12
August	5	75	20	-15

Vendor Deliveries



The slowing in vendor deliveries, as reported by purchasers in September, continued at about the same pace in October. The 6% reporting slower deliveries in October was a drop of three points from the 9% reported in September. However, the 7% indicating faster deliveries in October was an increase of two points over September's 5% level.

Vendor Deliveries %	Faster	Same	Slower	Net
October	7	87	6	+ 1
September	9	82	9	0
August	13	83	4	+ 9

Specific Commodity Changes

No items were reported in short supply in October, a situation which has existed for nine consecutive months. Only one item was reported up in price: diesel fuel. However, fuel oil prices were reported lower for the twelfth consecutive month. For the ninth consecutive month, corrugated shipping containers were reported lower in price. For the third consecutive month, caustic soda was also reported to be lower in price. Caustic soda is used in making the paper from which those corrugated containers are made. Phenol, which was reported up in price in July and August, reversed directions in

October and dropped in price. Other repeaters on the list of lower-priced items are aluminum (its fifth consecutive month), soybean and vegetable oils (their third consecutive month), and steel. Prices for several petroleum-derived chemical solvents were reported lower for the first time in October.

UP in Price: Diesel fuel

DOWN in Price: Aluminum, steel, soybean and vegetable oils (used in prepared foods), fuel oil, coal, corrugated shipping containers, caustic soda (used heavily in petroleum refining and paper making), methanol (a workhorse chemical), phenol (used in plastic resins for housing and automobile production), and several petroleum-derived chemicals.

In SHORT Supply: None

The National Association of Purchasing Managers' *Report on Business* details the actual changes in prices in 10 of the 15 most important categories of goods and services, and wages, employment, prices, shipments and order backlog. These five components are weighted and combined to compensate for seasonal variations.

Each month, we develop a variety of statistics to complement data for seasonal variations. NAPM collaborates with the U.S. Department of Commerce which prepares the monthly *Purchasing Managers' Composite Index* for publication by NAPM. The Department of Commerce adjusts the five above-mentioned components for seasonal variations, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the U.S. Department of Commerce and is the only part of the report adjusted for seasonal variations.

Note: The next issue of the *Report on Business* will be available Dec. 2, 1985.

Commodity Reports

Paper Products

Prepared by the N.A.P.M. Paper Committee, chairman, Glenn Farber, C.P.M., Vanier Graphics Corporation, Santee, CA

As we head into the fall of 1985, the basic condition of the paper industry can only be described as struggling. The industry in general is plagued by overcapacity, imports of the high tonnage commodity items, and (in some grades) a decline in demand. Due to price reductions in many grades, most buyers are keeping inventories at minimum levels. In most cases, minimum inventories are not creating any delivery problems since lead times, in general, are very short.

Newsprint

This commodity remains plentiful, with excess supply anticipated at least through mid-1986. Lead times are short, and consumers' inventories are decreasing. Prices are decreasing, too, with discounts prevalent; no price increases are expected for at least six months. No additional U.S. capacity exists. However, this commodity has always been a major import item, and some additional foreign capacity is projected.

Uncoated Groundwood

Most grades are plentiful, with the temporary exception of Roto news, which is currently firm. Shipments of uncoated groundwood declined during the first half of 1985. Rush orders can be accommodated. Consumers' inventories are decreasing. Some discounting is occurring, with imports adding pricing and capacity pressure. No new U.S. capacity is planned.

Coated Papers

This market is soft, except for a few specific grades of coated freesheet. Two new machines will enter the No. 5 coated groundwood market in 1986 and '87. Imports again are nibbling at this market, doubling last year's levels. Overall supplies increased during the first half of 1985; the strongest demand is for No. 3 coated and No. 5 coated groundwood. Pricing remains stable but under pressure from imports.

Uncoated Freesheets

Excess capacity causes mill inventories to be available for rush deliveries on some grades. Three major capacity additions were made in the past twelve months.

Imports have declined from the high levels of last year, but still are having an adverse effect on U.S. mills. Prices are decreasing, and reprographics grade tonnage is growing. Tissue grade showed strong growth for the first half of 1985, reflecting the U.S. mills regaining of their market share, which was lost to imports last year.

Paperboard

This commodity also remains readily available, with excess capacity, and is projected to remain plentiful for the near term. Buyers' inventories are low and decreasing. Some SBS capacity is projected for 1986. Prices remain stable at somewhat lower levels. The attempts by linerboard grades to get price increases has met with little success to date.

Pulp

An over supply still exists worldwide for most all grades of market pulp, and discounting is prevalent. This over-supply of pulp is having an adverse effect on the selling price of most all waste-paper grades.

Notice from the chairman:

We are looking for new members for the paper committee. If your primary job responsibility is the purchasing of paper or paperboard material as a raw material, we would be interested in having you as a member. Please contact Glenn Farber, Vanier Graphics Corporation, P.O. Box 370, Santee, CA 92071.

Packaging and Containers

Prepared by the N.A.P.M. Packaging and Containers Committee, chairman, Carl D. Dikse, C.P.M., S.C. Johnson and Son, Inc., Racine, WI

Ample availability continues in the packaging and container markets. Prices are generally weak, particularly for corrugated and folding cartons.

Metal Cans

There is still surplus capacity in the metal can industry. Some business is being lost to competing materials. Prices continue to be weak.

Fibre Cans

There is surplus capacity in this market and lead times are short. The switch to plastic for oil cans is hurting this industry. Prices are stable and some decreases are reported.

Glass

Continued plant shutdowns have resulted in some tightness of supply. As a result, prices are firming.

Molded Plastics

Plastic molders are quite busy, no shortages are noted, however. Resin prices are starting to go up from their depressed levels.

Films

There is adequate to surplus supply of this commodity, and lead times are relatively short. Prices are stable, but concern is expressed over possible resin increases.

Laminated Stock

Market conditions for laminated stock are similar to those for film. There is plenty of capacity, but some concern remains about possible price increases, due to some firming in the resin market.

Metal Drums

The availability of metal drums is adequate to surplus. As a result, pricing continues to be weak.

Fibre Drums

This is another market with very adequate capacity. Prices are stable, but are not as depressed as those of other paper-based containers, such as corrugated.

Folding Cartons

The folding carton industry continues to experience surplus capacity. SBS board is readily available. Pricing is stable to weak and some decreases are being experienced.

Corrugated

Excess capacity continues at the linerboard mills and at converting plants, and lead times are short. Prices continue to be very depressed as suppliers compete for available business.

Bags

Mergers and buy-outs continue, but surplus capacity continues to exist. Prices are weak, reflecting this surplus, and the weak price market for kraft paper continues.